

MEMORANDUM

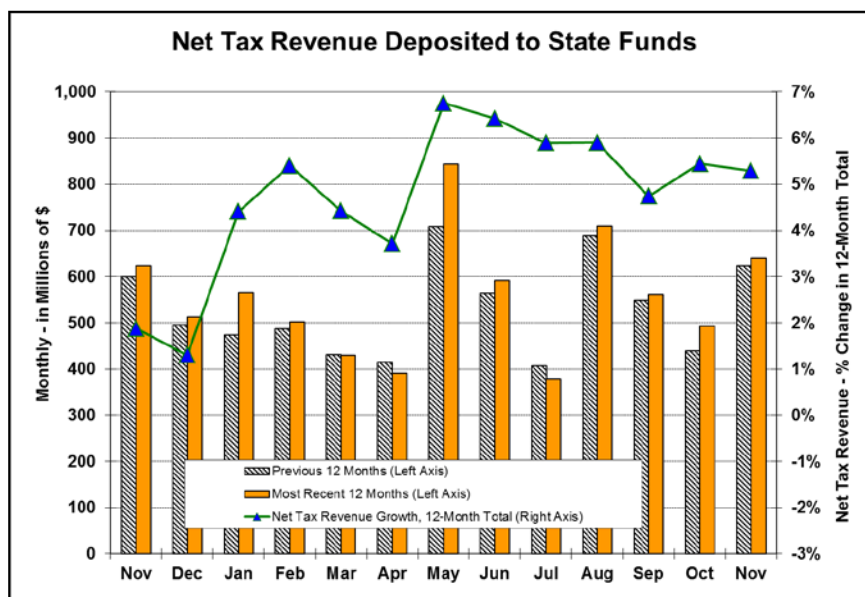
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: December 28, 2011

Twelve-month Total Net Tax Receipts Through November 30, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending November 2011 with comparisons to the previous twelve months. November 2010 to November 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Net tax revenue across all State funds increased 2.6% in November and is up 5.3% over the most recent 12 months. At \$6.615 billion, annual revenue remains well below the pre-recession peak level of \$6.760 billion (October 2008). The 5.3% annual growth rate is the result of good growth in individual income tax and sales/use tax receipts supplemented by strong growth in corporate tax deposits.

Month of November Comparison

November net tax receipts totaled \$640.0 million, an increase of \$16.0 million (2.6%) compared to November 2010. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$3.6 million, 1.3%) – Withholding payments increased 3.0% but more than half of the increase was offset by a drop in tax return payments.
- Sales/Use Tax (positive \$11.1 million, 3.8%)
 - Road Use Tax Fund use tax (fee for new registration) increased \$2.0 million in November.
 - Gross General Fund sales/use tax receipts increased \$10.4 million while regular tax refunds increased \$1.6 million and school infrastructure transfers out decreased \$0.3 million.
- Corporate Income Tax (negative \$0.1 million)
- Fuel Tax (negative \$0.4 million, - 1.1%) – Gross tax deposits showed a modest increase for the month. The month's decrease was due to an increase in tax refunds issued.
- Cigarette and Tobacco Taxes (negative \$2.6 million, - 14.2%) – Deposit timing issues have produced volatility in recent cigarette and tobacco tax monthly amounts.
- Gambling Tax (positive \$1.2 million, 5.5%) – The new casino in Lyon County (opened June 2011) will provide monthly year-over-year revenue increases throughout FY 2012.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending November 2011, net revenue from all taxes deposited to State funds totaled \$6.615 billion, an increase of \$332.7 million (5.3%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$181.7 million, 6.7%) – Individual income tax continues to post strong year-over-year annual growth numbers. However, the growth rate has slowed in recent months. At \$2.890 billion, the level of net individual income tax revenue over the past 12 months is essentially the same as the level first reached in August 2008 and is 0.8% below the November 2008 peak.
- Sales/Use Tax (positive \$81.2 million, 3.7%) – While sales/use tax revenue increased 3.7% over the past year, receipts are \$24.2 million (-1.1%) below the November 2008 peak level.
- Corporate Income Tax (positive \$53.4 million, 23.5%) – Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 21.8% below the pre-recession peak (September 2008 = \$359.2 million).
- Fuel Tax (negative \$1.0 million, - 0.2%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 2.1% while taxable diesel sales increased 2.6%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 4.0% lower than the March 2008 peak diesel sales level and total taxable fuel gallons are only 1.2% above the pre-recession (August 2007) peak for all gallons sold.
- Gambling Tax (positive \$7.0 million, 2.5%) – According to Racing and Gaming Commission statistics, five of Iowa's 18 casino/track locations reported negative annual adjusted gross

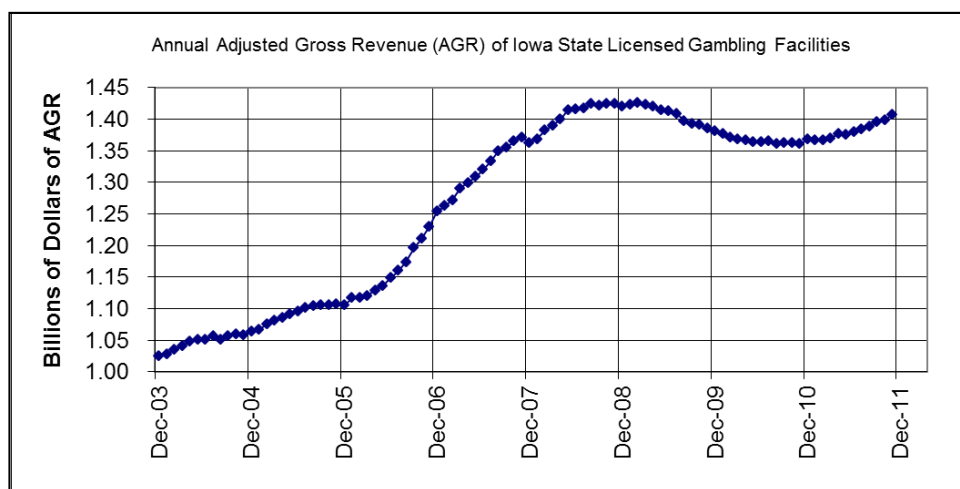
revenue (AGR) growth for the 12-month period ending November 2011. The combined AGR growth for the 18 facilities was positive 3.5% over the same 12 months last year, with the Lyon County casino contributing 59.3% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.407 billion.

- Insurance Premium Tax (negative \$3.4 million, - 3.5%)
- Cigarette and Tobacco Tax (negative \$6.9 million, - 3.0%)

Tax Spotlight – Gambling Tax

Pari-mutuel wagering and gambling (excursion boats, gambling structures, and racetracks) are taxed under the authority of Iowa Code Chapters 99D and 99F. Taxes applied to pari-mutuel wagering and gambling are as follows:

- The pari-mutuel tax on horse racing is 6.0% of the gross sum wagered. However, if the gross sum wagered is less than \$90.0 million then the net tax is 0.0%. If the gross sum wagered is \$90.0 million or above, the net tax is 1.0% due to a tax credit based on the gross sum wagered. There is currently one establishment in Iowa that has horse racing.
- The pari-mutuel tax on dog racing is 4.0% of the gross sum wagered of \$30.0 million or less, 5.0% between \$30.0 million and \$55.0 million, and 6.0% on \$55.0 million or more. There are currently two establishments in Iowa that offer dog racing.
- The pari-mutuel tax on simulcast races is 2.0% of the gross sum wagered. There are currently three establishments in Iowa that offer wagering on simulcast races.
- On casino games, the State wagering tax is 5.0% of the first \$1.0 million of adjusted gross gambling receipts, 10.0% of the next \$2.0 million, and 22.0% of adjusted gross receipts over \$3.0 million. If the entity offering gambling is a racetrack, then the maximum rate can increase to 24.0% if the amount of adjusted gambling receipts is \$100.0 million or more. In addition to the three racetracks that offer gambling, there are 15 other casinos in Iowa with gaming subject to the State wagering tax in Iowa.



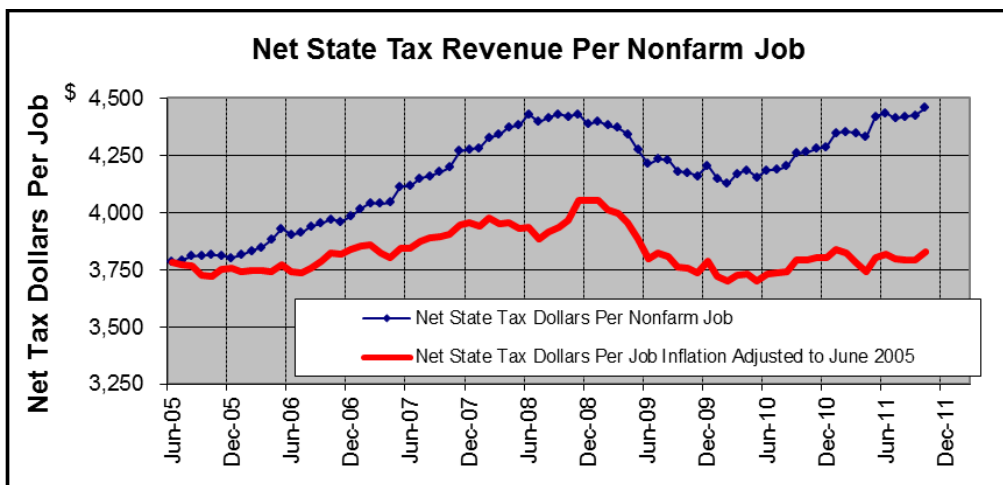
Pari-mutuel /Gambling Timeline

Pari-mutuel gambling on horse and dog races was approved with passage of SF 92 (Pari-mutuel Wagering Act of 1983) with a tax rate of 6.0%. Simulcasting of races was approved in SF 220 (Pari-mutuel Wagering Changes Act of 1989). This Act also changed the tax on horse and dog racing to the current percentages. The Excursion Boat Gambling Act of 1989 (SF 124) provided for gaming on excursion boats and taxed gambling receipts at 5.0% on the first \$1.0 million, 10.0% on the next \$2.0 million, and 20.0% on gambling receipts above \$3.0 million.

House File 2179 (Gambling at Pari-mutuel Racetracks Act of 1994) authorized slot machines at pari-mutuel racetracks with wagering taxed at 22.0% in the initial year and increasing by two percentage points per year until the rate reached 36.0%. In 2002, the Iowa Supreme Court ruled racetrack casinos could not be taxed differently than excursion boat casinos. In response to the ruling, the General Assembly enacted HF 2302 (Gambling Changes Act) and changed the tax rates to the current rates.

Tax Revenue and Employment

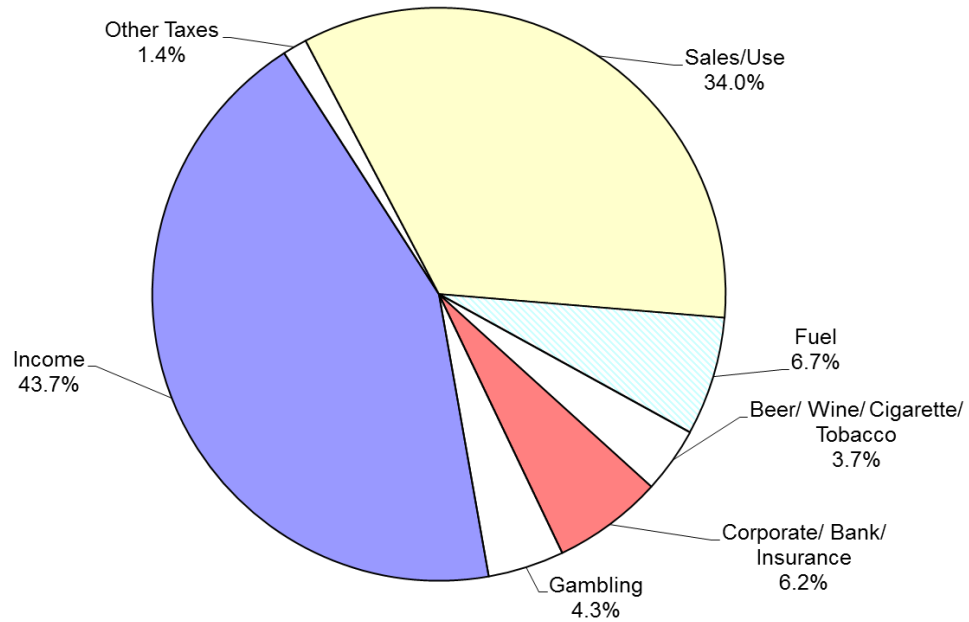
The average reading for Iowa nonfarm employment over the 12 months ending October 2011 is 1,480,500 and net State tax receipts over the same 12 months totaled \$6.599 billion, or \$4,457 per nonfarm job. This is \$672 (17.8%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.4%. Therefore, State tax revenue per job has slightly exceeded the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



Net State Tax Revenue - Twelve Months Ending November 2011

Net Revenue = \$6.615 Billion

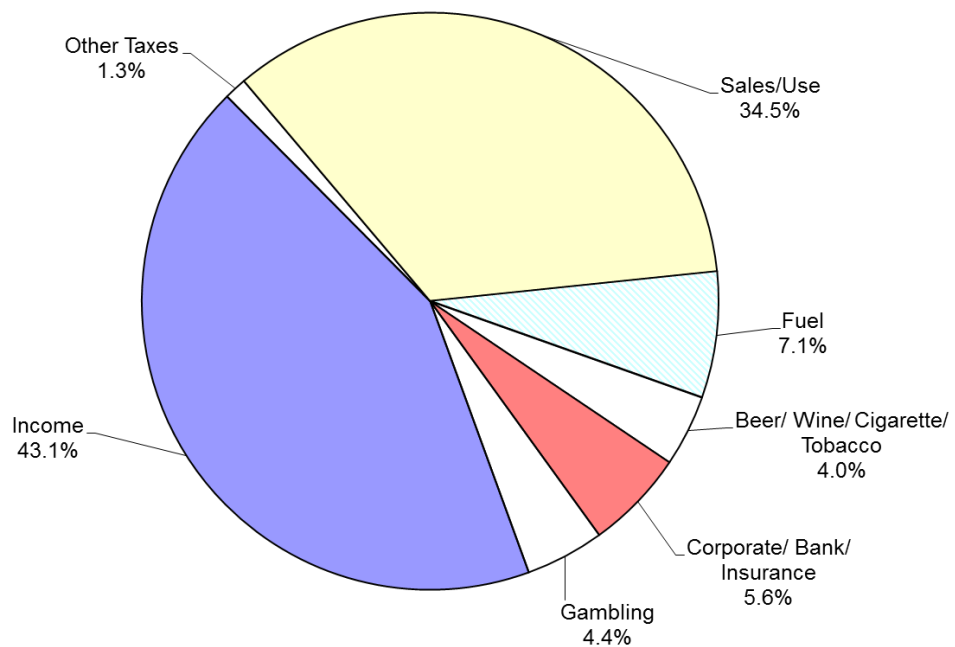
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending November 2010

Net Revenue = \$6.283 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of November 2010	Month of November 2011	November \$ Change	November % Change
Banking	\$ 26.3	\$ 34.9	\$ 8.6	32.7%	\$ - 2.0	\$ - 2.7	\$ - 0.7	--
Beer & Wine	21.1	21.5	0.4	1.9%	2.0	1.9	- 0.1	-5.0%
Cigarette & Tobacco	230.7	223.8	- 6.9	-3.0%	18.3	15.7	- 2.6	-14.2%
Corporate Income	227.7	281.1	53.4	23.5%	- 17.5	- 17.6	- 0.1	--
Fuel	444.0	443.0	- 1.0	-0.2%	38.0	37.6	- 0.4	-1.1%
Gambling	277.3	284.3	7.0	2.5%	21.8	23.0	1.2	5.5%
Individual Income	2,708.8	2,890.5	181.7	6.7%	268.2	271.8	3.6	1.3%
Inheritance	61.3	66.9	5.6	9.1%	4.4	6.0	1.6	36.4%
Insurance	97.9	94.5	- 3.4	-3.5%	0.0	0.0	0.0	--
Other Taxes	5.0	9.9	4.9	98.0%	0.1	2.3	2.2	2200.0%
Real Estate Transfer	13.1	14.3	1.2	9.2%	0.9	1.1	0.2	22.2%
Sales/Use	2,169.3	2,250.5	81.2	3.7%	289.8	300.9	11.1	3.8%
Total Net Taxes	\$ 6,282.5	\$ 6,615.2	\$ 332.7	5.3%	\$ 624.0	\$ 640.0	\$ 16.0	2.6%
Gross Tax & Refunds								
Gross Tax	\$ 7,512.5	\$ 7,900.8	\$ 388.3	5.2%	\$ 717.6	\$ 736.6	\$ 19.0	2.6%
Tax Refunds	\$ - 1,229.8	\$ - 1,285.7	\$ - 55.9	4.5%	\$ - 93.6	\$ - 96.5	\$ - 2.9	3.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,300.3	\$ 5,549.9	\$ 249.6	4.7%	\$ 553.3	\$ 551.7	\$ - 1.6	-0.3%
Road Use Tax Fund	\$ 707.1	\$ 734.9	\$ 27.8	3.9%	\$ 59.8	\$ 61.5	\$ 1.7	2.8%
Non-GF Gambling	\$ 257.2	\$ 213.3	\$ - 43.9	-17.1%	\$ 5.3	\$ 3.4	\$ - 1.9	-35.8%
Other State Funds	\$ 18.1	\$ 117.0	\$ 98.9	546.4%	\$ 5.7	\$ 23.5	\$ 17.8	312.3%
Local Option Taxes *	\$ 787.9	\$ 834.5	\$ 46.6	5.9%	\$ 74.3	\$ 68.9	\$ - 5.4	-7.3%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.